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COMMISSION ON TRANSNATIONAL CORPORATIONS
Intergovernmental Working Group of
Experts on International Standards of
Accounting and Reporting
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Agenda item 5

ADOPTION OF THE REPORT OF THE GROUP ON ITS TENTH SESSION

Draft report

Addendum

Rapporteur: L. Nelson Carvalho (Brazil)

II. PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND REPORTING

A. Review of important current developments at the global and national level in the field of accounting and reporting by transnational corporations

1. At its 2nd and 3rd meetings, on 5 and 6 March 1992, the Group discussed the report of the Secretary-General on important current developments at the national level in the field of accounting and reporting by transnational corporations (E/C.10/AC.3/1992/4). The representative of the Division informed the Group that replies to the questionnaire had been received from 48 countries. A number of experts commented on the non-homogeneity of their replies. They suggested that certain guidance be given to those completing the questionnaires. In particular, it might be useful to specify for the Governments which agency or body should fill in the questionnaire.

2. The expert from China announced that, at the end of 1991, the Ministry of Finance had issued for comment its first accounting standard, which contained

general accounting principles or a conceptual framework. Additional standards would be issued to address specific issues. This represents a departure from the traditional method of standard-setting, where standards were formulated for different industrial sectors and different forms of ownership. In the future, all enterprises would use uniform accounting policies. However, each industrial sector might design its own detailed accounting system as long as it was consistent with the uniform accounting standards.

3. The expert from Mexico stated that, as part of the North American Free Trade Agreement, the three countries in question were considering the adoption of common accounting standards and common rules for the licensing of accountants. She also noted that, while the Instituto Mexicano de Contadores Públicos provided guidance on corporate accounting, it usually did so after examining the pronouncements of the main international accounting bodies.

4. Since the reply of his country had not been included in the report, the expert from Morocco explained that 1991 had been marked by three major events: two draft laws on accounting and auditing, which were based on the European Community (EC) directives, and the fact that the National Council of Accounting had begun its work. In addition, the Government had selected those entitled to conduct audits of the enterprises to be privatized.

5. The expert from Chile said that his country had developed substantial expertise in accounting for inflation. He added that several years ago, a system of monetary restatement (or monetary correction) was introduced. The accounting profession and the regulators of his country were currently dealing with the accounting treatment of the differences that might result from updating liabilities for exchange rate fluctuations as compared to restating fixed assets with domestic inflation rates. He suggested that, since the Group was concerned with harmonization, the issue of inflation could not be ignored even if it was low. In the long term, the cumulative effects of inflation would distort the financial statements. Therefore, the Group should consider more research in that area.

6. The expert from Bulgaria also mentioned the need for guidance in accounting for inflation and in accounting for joint ventures. He announced that an Institute of Accountants had been established and that a national commission had been set up to examine candidates for the profession and 54 persons had been given the title of "Chartered Accountant" or "Certified Public Accountant". In Bulgaria, the control of the activities of auditors was very important because joint stock companies and banks must be audited annually.

7. The expert from the United Kingdom of Great Britain and Northern Ireland informed the Group that the Accounting Standards Board had created an Urgent Issues Task Force. So far, it had dealt with the treatment of goodwill from the resale of businesses, allocating the financing cost of deep discount bonds, and disclosure in the profit and loss account from restructuring and reorganization costs. The expert from Gabon stated that a National Accounting Council was established in 1992. It could benefit from the dissemination of

reports of the Group. Regarding the Group's work on the environment, he had transmitted the report to the Minister of Environment.

8. At its 3rd and 4th meetings, on 6 March 1992, the Group considered the report of the Secretary-General entitled "Environmental disclosures: international survey of corporate reporting practices" (E/C.10/AC.3/1992/3). In introducing the report, the representative of the Division noted that a vast majority of the transnational corporations studied - 191 out of 222 - reported at least some information regarding their environmental impacts. Although much of that information was qualitative, descriptive and inconsistent across industries, it did demonstrate an awareness of environmental issues. It was obvious that there were leaders and laggers in this field; some companies were reporting useful information while others were reluctant to do so. One of the main problems highlighted by the survey was that environmental performance was not related to expenditures or to environmental targets.

9. The observer for the International Confederation of Free Trade Unions (ICFTU) found the survey quite useful, particularly because concrete examples of corporate practice were cited in the report. She assumed that the survey was based on parent company reports and suggested that in the next survey individual company reports also be examined as they were likely to disclose more relevant information on emissions. Another expert said that it would be desirable to know how the disclosure system operated between parent and subsidiary.

10. The Group found the report well prepared, allowing valid conclusions to be drawn. It showed that, despite growing awareness, progress was slow and the Group must find a way to finalize its conclusions. The dissemination of the Group's conclusions might improve disclosure. Another expert stated that the report would be extremely useful to her Government by showing the scope of the problems.

11. One observer expressed appreciation to the Division for its work in that field. He said that in his 10 years with the Group he had more requests for its environmental reports than for any other report. The issues were complex and needed continuous monitoring. Therefore, he considered it would be more useful for the Group to continue to monitor developments than to issue recommendations at this time. In future surveys, it might be desirable to have a higher number of transnational corporations per country. Another expert requested that more transnational corporations from developing countries be included.

12. One expert spoke about accounting for the environment at the micro- and macroeconomic levels. He outlined the tasks of the accountant, including the identification of an activity, its measurement and its communication or disclosure. Within the context of sustainable development, it was necessary to include the full cost of producing a product, which would include all the unrecorded environmental costs. Another expert said he had difficulty with this because accounting was at the end of the line. If the Government did not

put a price on environmental resources, how could accountants put them on the books? He referred to paragraph 35 of the report (E/C.10/AC.3/1992/3), in which an enterprise described the difficulties it had in quantifying its contingent liabilities. The expert was of the opinion that if the enterprise did manage to quantify its liabilities and declared them, the company would not survive. Legal problems were the main reasons why there was not more disclosure, but there were also measurement problems. He stated that, in the future, the Group should consider the appropriateness of special purpose reports for disclosing environmental information. It was possible that measurement problems would disappear if the Group stopped trying to integrate environmental issues into financial accounting. The expert from Germany added that it was not possible to solve environmental problems only with new accounting rules. For example, owing to the prudence principle, environmental liabilities had to be recognized in the opening balance sheets of former East German enterprises. Those contingent liabilities were in some cases very important. In the end, the Government might be forced to assume directly some of the contingent liabilities. Therefore, one could see the problem better with disclosure, but that did not solve it.

13. Several experts from developing countries did not agree with the suggestion that the Group restrict itself to a monitoring role. The issuing of recommendations would be helpful to developing countries that did not have the expertise to formulate such recommendations. The major players were not doing very much; Governments did not have the resources to deal with the issue; standard-setting bodies were not addressing it; and industry was not keen to pursue it. Therefore, the catalytic role of the Group was especially important. Another expert from a developing country stated that, while he recognized that accounting was not a policy-making instrument, recommendations by the Group would go a long way in giving the necessary guidance to improve disclosure. Another expert stated that requiring such disclosures would have more impact on the behaviour of enterprises than environmental legislation itself. He referred to the fact that the publication of toxic emissions data had a more powerful effect on reducing pollution than 20 years of regulation, and so, disclosure was, in the opinion of one national regulator, "one of the most important tools we have to reduce toxic emissions".

14. One expert clarified the distinction between environmental accounting, auditing and reporting:

(a) Environmental accounting. A new basis and system of recognition and measurement of costs, including externalities;

(b) Environmental auditing. Enterprise techniques for environmental management;

(c) Environmental reporting. Disclosure of environmental activities.

He was of the opinion that the Group's conclusions were adequate in terms of environmental reporting and that such reporting should be encouraged but not required. Furthermore, the manner of reporting was best left to the enterprise since it had to be determined in the light of its circumstances.

15. In concluding the discussion, a number of experts suggested that the Group transmit its "conclusions (on environmental reporting) for consideration by Governments and other interested parties" to the Secretary-General of the United Nations Conference on Environment and Development, as set out in document E/C.10/1991/12 and Corr.1. It was also recommended that when the Group's booklet, entitled "Conclusions on accounting and reporting for transnational corporations" was revised, environmental reporting be included.

16. Two experts outlined the future work that should be undertaken by the Group and discussed at its future meetings:

(a) A survey of corporate practices, using the conclusions as a reference point; include more enterprises per country; include individual accounts; compare group with individual reports;

(b) Prepare a special report of best practices.